BOSTON EDISON COMPANY

Direct Testimony of Robert H. Martin

Exhibit BEC-RHM

D.T.E. 00-82

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert H. Martin. My business address is 800 Boylston Street, Boston, Massachusetts 02199.

Q. By whom are you employed and in what capacity?

A. I am the Director, Electric Energy Supply, Asset Divestiture and Outsourcing for NSTAR Services Company. In this capacity, I am responsible for coordinating the divestiture of the generating assets and entitlements and the procurement of supplies for Standard Offer and Default Service for Boston Edison Company ("Boston Edison" or the "Company"), as well as Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth").

Q. Please briefly summarize your educational background and business experience.

A. I am a graduate of Bentley College with a Bachelor of Science Degree in Accounting. Upon graduation in 1974, I joined Commonwealth Energy System's Service Corporation where I held several accounting positions, including Group Accounting Supervisor. In 1984, I accepted the position of Supervisor of Cost Administration. In 1987, I was promoted to Manager of Revenue Requirements and Cost Administration. In 1997, I became the Manager of Regulatory

Accounting and Special Projects for Cambridge, Commonwealth, Commonwealth Gas Company and Canal Electric Company. In 1999, I became the Director of Revenue Requirements for the regulated companies of NSTAR Services Company. I assumed my present position in May 2000.

Q. Please describe your present responsibilities.

A. As Director, Electric Energy Supply, Asset Divestiture and Outsourcing, I am responsible for securing a least-cost energy supply and for mitigating the cost incurred under existing above-market power purchase agreements ("PPAs"). My responsibilities currently include coordinating the sale of NSTAR's PPAs and securing a supply for Standard Offer Service, Default Service and wholesale energy customers.

Q. Have you previously testified before the Department of Telecommunications and Energy (the "Department") or any other regulatory body?

A. Yes, I have most recently presented testimony before the Department concerning the reconciliation of Commonwealth's and Cambridge's Transition Charges in D.T.E. 99-90. I have presented testimony before the Department in D.T.E. 98-126, concerning the approval of Commonwealth's buyout of its Pilgrim purchase power contract, specifically providing a description of the cost savings for Commonwealth's customers, and the associated beneficial effect on Commonwealth's Transition Charge, resulting from the buyout. I have presented testimony before the Department in D.T.E. 98-78/83, concerning the approval of

COM/Electric's divestiture of its non-nuclear generating assets, providing a description of the Residual Value Credit and a discussion of the resulting Transition Charge, in compliance with Chapter 164 of the Acts of 1997 (the "Act") and the Department's order in D.P.U./D.T.E. 97-111 (1998).

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the Company's efforts to mitigate its transition costs to the maximum extent possible, consistent with the Act and the Company's Restructuring Settlement Agreement ("Restructuring Settlement") approved by the Department in D.P.U./D.T.E. 96-23. I will also describe how the Company procures Standard Offer and Default Service for its customers and the Company's proposal for continued procurement during the year 2001.

III. COMPANY'S MITIGATION EFFORTS

Q. Is the Company mitigating its transition costs?

A. Yes. The Act requires that the Company take all reasonable steps to mitigate its transition costs "to the maximum extent possible" and encourages electric companies to divest their generating assets and renegotiate or buy-out of above-market PPAs. In D.P.U./D.T.E. 96-23, the Department found that the Company had committed to full mitigation of its transition costs and the Restructuring Settlement complied with the Act.

Q. What types of transition cost mitigation have been commenced or completed by the Company to date?

A. Pursuant to the Act and its Restructuring Settlement, the Company committed to aggressive mitigation efforts, including the divestiture of its fossil-fueled and nuclear (Pilgrim) generation facilities and the renegotiation or buy-out of above-market PPAs.

Q. Describe generally the divestiture of the Company's generating facilities.

A. The Company executed agreements with Sithe Energies Inc. ("Sithe") for the sale of the Company's fossil-fueled generating assets held prior to divestiture by the Company. The assets involved in the divestiture were the Company's Mystic and New Boston generating units, the Company's combustion turbines located in Weymouth, West Medway and Framingham and the Company's interest in the Wyman 4 generating unit located in Yarmouth, Maine. This transaction was approved by the Department in D.T.E. 97-113. In addition, the Company executed an agreement with Entergy Nuclear Generation Company ("Entergy") for the sale of the Company's nuclear generating asset (Pilgrim) and this transaction was approved by the Department in D.T.E. 98-119. Consistent with the Act and the Company's Department-approved Restructuring Settlement, the Company divested its generation facilities through market-driven auctions following widespread solicitations of potential bidders. The Department found, in each case, after review of the processes, that each divestiture process maximized the value of the generating assets for customers and thus satisfied the requirements of the Act.

Q. Regarding PPAs, with how many suppliers does the Company hold contracts?

A. The Company presently has a number of long-term contracts for supply through PPAs with utility and non-utility generators, including a firm energy contract with Hydro Quebec and a "buy-back" contract from Entergy for Pilgrim. Please refer to the exhibits filed with the testimony of Rose Ann Pelletier, Exhibit BEC-RAP, for a listing of the contracts that the Company has with suppliers.

Q. Has the Company attempted to renegotiate the terms of the PPAs in good faith?

A. The Company has engaged in a series of efforts to divest pre-retail access PPAs through both general requests for proposals and through individual agreements with the owners or operators of the power plants, all in an effort to mitigate the Company's transition costs associated with these contracts.

Q. Has the Company been successful in renegotiating or buying out any of its PPA contracts?

A. Yes, the Company, in 1999, bought-out and terminated its contract obligation with L'Energia Limited Partnership ("L'Energia") and the Department approved this buy-out and the Company's cost recovery of the buy-out amount in D.T.E. 99-16. The Company is currently involved in negotiation efforts with several suppliers to sell, buy-out, or renegotiate its remaining long-term PPAs.

Q. Has the Company complied with the Restructuring Settlement, which required the Company to file a plan for strategies on terminating or reducing its obligations under its power purchase contracts?

A. In compliance with the Restructuring Settlement, the Company filed a report on its PPAs in July 1998 and updated it in August 1999, in D.T.E. 99-62. In its August 1999 report, the Company indicated that it expected to implement a PPA-divestiture process for the sale and assignment of the PPAs that had not been terminated or restructured through bilateral negotiations. In October 1999, the Company, together with Cambridge and Commonwealth, commenced a solicitation process to obtain offers for the sale, buy-out or renegotiation of its remaining long-term PPA entitlements, as well as to obtain power supply for its Standard Offer Service load. As of this filing, no buyouts of PPAs have been concluded as a result of the solicitation process.

Q. Why does the Company believe that it has mitigated its transition costs associated with the PPAs to the maximum extent possible?

A. Consistent with the Act and the Company's Restructuring Settlement, the Company has attempted to mitigate its transition costs associated with PPAs through good-faith renegotiations and buy-outs. The Company's customers have realized significant savings because of these efforts (L'Energia) and will continue to realize savings in the future if and when the Company further reduces its PPA obligations through renegotiation, sale and buy-outs of these contracts. However, the Company will proceed with a divestiture of a PPA contract only to the extent that the transaction will result in net benefits for its customers. If a divestiture transaction would result in additional costs for customers and not produce maximum mitigation of transition costs, the Company will not pursue it. For example, it would not be in customers' best interest to sell existing power contracts at an imputed price of 3 cents per kilowatt-hour ("kWh") and then proceed to procure Standard Offer supplies at 6 cents per kWh. The Company continues to explore all alternatives to reduce its transition costs associated with PPAs.

IV. STANDARD OFFER SERVICE AND DEFAULT SERVICE PROCUREMENT

Q. Describe how the Company currently obtains Standard Offer Service for its customers.

A. Since the implementation of electric industry restructuring in March 1998, the Company has been responsible for supplying retail customers with Standard Offer and Default Service. On March 1, 1998, the Company supplied Standard Offer and Default Service from its existing portfolio of resources, which included owned generation units (both fossil and nuclear), long-term purchase power agreements with utility and non-utility generators, and short-term purchases from the bilateral spot market or the New England Power Pool (now, ISO New England, Inc. ("ISO")). After the divestiture of its fossil generating assets in May 1998, the Company entered into a "buy-back" contract with Sithe, the new owner of the divested fossil generating assets. The "buy-back" contract with Sithe, which was approved by the Department in D.T.E. 97-113, was a contract whereby the Company bought back unit-specific power from Sithe to support the Company's Standard Offer and Default Service obligation. The term of this agreement was from May 15, 1998 through November 30, 1998. Upon termination of the Sithe buy-back contract, to supplement its existing supply arrangements, the Company entered into short-term arrangements to meet its additional power supply requirements from December 1998 through May 1999 and again for the period June 1999 through December 1999. After the divestiture of Pilgrim in 1999, the Company entered into a "buy-back" contract with Entergy, the purchaser of Pilgrim, for the purchase of output of the unit at a fixed price. This PPA runs through 2006 for gradually decreasing percentages of the unit output and was approved by the Department in D.T.E. 98-119. In 2000, the Company, together with Cambridge and Commonwealth, following the 1999 merger which created NSTAR, entered into additional short-term arrangements to serve the majority of its power-supply requirements for the six-month periods January through June and July through December. The Company relied on bilateral and/or ISO-NE spot purchases for any remaining additional requirements. The changing portfolio used to provide Standard Offer and Default Service to customers of the Company is described in exhibits filed with the testimony of Rose Ann Pelletier in Exhibit BEC-RAP. The Company, as mentioned previously, is continually evaluating proposals, jointly with Cambridge and Commonwealth, to provide power supply for Standard Offer Service for varying periods throughout the Standard Offer period.

Q. How does the cost of incremental Standard Offer Service supply generally compare to the market?

A. The cost for additional short-term contracts with marketers and spot purchases from ISO-NE for peaking and intermediate load is typically above the average market price for electricity. Such incremental purchases produce significant cost deferrals because the Standard Offer Service rate charged to retail customers has been below the market price for electricity.

Q. What is the Company's current plan regarding the solicitation of power supply for Default Service?

A. The Company is implementing market-based rates for Default Service in December 2000 in accordance with the procedures established by the Department in D.T.E. 99-60. The Default Service rate reflects a market-based price to provide the service. The Company will continue to solicit bids for Default Service supply and set rates at market levels in accordance with the requirements of the Act and the Department's procedures established in D.T.E. 99-60. In the future, therefore, Default Service supply will be uncoupled from Standard Offer Service supply.

Q. What is the Company's current plan regarding the solicitation of power supply for Standard Offer Service?

A. In October 1999, NSTAR released an offering memorandum for the transfer of PPA entitlements and solicitation of power supply for aggregate Standard Offer load. Final binding bids were due in December 1999 and NSTAR has since negotiated separately with the individual bidders for both short and long-term supply, including intermediate and short-term power supply arrangements for 2000. Once evaluations are final and completed for any long-term transactions, NSTAR will then take the appropriate actions in the best interests of its customers.

Q. Does this conclude your testimony?

A. Yes, it does.